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TARGET COSTING FOR THE PURPOSE OF GENERIC STRATEGIES' REALIZATION*

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Abstract. *A highly competitive market creates the need for constant search for the ways in which the companies could create and offer products with unique features and at a lower price than it would be the case with the competition. Competitive advantage and better market position depend on the choice of appropriate strategy. Companies are in a position to select some generic strategies. The concept of target costing is a part of the strategic process of cost management and company management. It is based on the attempts to create low-cost product by managing costs in the phase preceding the production phase, without endangering the product's functionality and usefulness for the buyers. Therefore, this concept offers a solid information basis for the realization of generic strategies of a company.*

Key Words: *strategy, differentiation, focus, product-level target costing, component-level target costing.*

INTRODUCTION

All manufacturers that appear on a highly competitive market do their best to offer high-quality and functional products at a lower price than the one set by the competition. Success in gaining advantage over the competition depends on a company's chosen strategy and its abilities to realize the given strategy. Apart from generic strategies, managers of modern companies develop and apply alternative strategies and confrontation strategies that serve as managerial tools and appear to be appropriate to the global business environment. The paper will deal with generic strategies – cost leadership strategy, differentiation strategy and focus strategy. Each of these strategies represents one of the sources of competitive advantage.

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The choice of a strategy is largely determined by the goals that a company has defined, its abilities, as well as by the current state of affairs within the environment.

The processes of choosing, developing and realization of some of the generic strategies require appropriate information support. Information support of that kind is offered by contemporary concepts of costing and cost management. With respect to this, a special place belongs to target costing. Target costing is a strategic cost management concept that is primarily characterized by the reduction of costs in the earliest phases of the product's life cycle. It stands for the strategic cost management tool as well as the tool that helps managers run a company. Starting from the market defined costs and passing through product-level target costing and component-level target costing, managers produce a product with which they compete on the highly competitive market. Target costing entails active participation of a great number of participants from a company itself and involvement of suppliers in the process of product design. In that way, suppliers become strategic partners in the process of achieving leadership position on the market.

1. GENERIC STRATEGIES FOR THE ACHIEVEMENT AND MAINTENANCE OF COMPETITIVE ADVANTAGE OF COMPANIES

Companies have opportunities for success within global business environment if they adopt a strategy that is appropriate for the conditions under which it is adopted, if it is feasible in relation to available resources, knowledge, abilities and skills of the employees and if it is desirable for the most influential stakeholders. The choice of the adequate strategy enables a company to create competitive advantage and gain a better market position.

The strategy of a company can be understood in its narrow and broad sense. In its broader sense, the strategy represents a thoroughly planned managerial decision that encompasses goals and business policies of the company itself. In its narrow sense, the strategy refers to planning decision in the scope of which routes towards realization of the company goals are determined. In this sense, the formulation of the strategy starts after the goals and the policy of the company have been defined.

The choice of an appropriate competitive strategy enables a company to create conditions under which it could produce products and provide services that have higher value than the products and services offered by the competition. According to Porter, an appropriate competitive strategy is based on a company's competitive advantage that might stem from two sources (Porter, E.M. 1985,11):

- having the lowest costs within its branch when compared to the competition – the ability of a company to design, produce and sell products in a more efficient way than the competition would do, and
- having significant and desirable differences in relation to the competition – the ability of a company to provide the buyers with unique or superior product value, especially in relation to quality, specific features of a product or provision of after-sales services.

It is also very important to determine the market breadth, that is, the scope of the competition within which the company wants to compete. The company can choose whether it would like to compete within all or within the majority of market segments. It can also compete within only one or several segments. Two basic types of competitive

advantage, combined with the market breadth, lead towards three generic strategies for the realization of the highest performances within a branch – cost leadership, differentiation and focus (Novićević, B., Antić, Lj., Sekulić, V. 2006, 17). Focus strategy can be subdivided into cost focus and differentiation focus. The concept of Porter's generic strategies is shown in Figure 1.

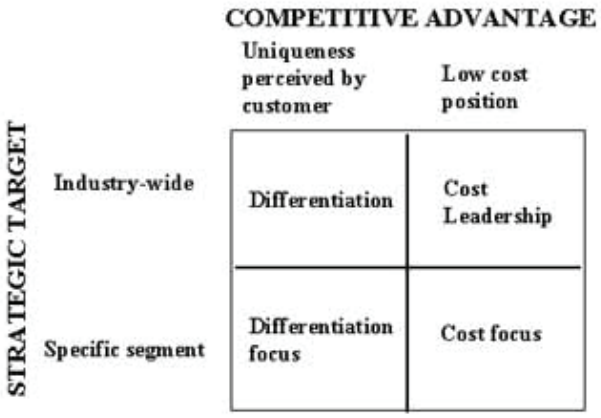

Fig. 1. Three generic strategies
(Source: Porter, E.M., (1985) Competitive Advantage, The Free Press, New York, p. 12.)

Each of these strategies refers to different ways in which competitive advantage can be achieved. Competitive advantage is the core of each business strategy. The purposes of realizing the strategy require that the company chooses the type of competitive advantage that it intends to achieve, as well as the competition that it intends to compete with.

1.1. Cost Leadership Strategy

Cost leadership strategy is based on the concept that the price is the main tool of competition among companies. Market advantage is achieved by the production and selling of products that are similar to the ones produced and sold by the competition but that incur lower costs. Manufacturers want to put a higher price on their products, whereas buyers ask for more products at the given price. In that kind of situation, the efficiency of the company's managers becomes fully expressed. Efficient management results in the production of low-cost products and in selling of those products at a price that is lower than the one set by the competition, while at the same time achieving the same or higher level of profit. The cost leader is characterized by the lowest total costs per unit of product within a branch and is able to "set the lowest prices and still make profit" (Coulter, M., 2010, 212). Moreover, the cost leader also has bigger chances to "survive on the competitive stage and continue to make profit even when the rivalry among the competitors reaches the critical point and when the war of prices breaks out" (Coulter, M., 2010, 212).

The choice of cost leadership strategy can be based on various factors, such as economies of scale (mass production), superior technology and production process, as well as access to material resources at lower prices than the ones set by the competition.

In generic sense, there are two ways to achieve cost advantage – through better control of the causes of costs than that performed by the competition and through more efficient redesigning and reformulation of value chain activities (Novićević, B., Antić, Lj., Sekulić, V. 2006, 17).

The efficiency of cost leadership strategy is bigger in branches in which there are more possibilities for economies of scale. A company achieves economies of scale by offering standardized, non-differentiated products to greater number of market segments. Selling of products to a greater number of segments necessarily results in cost reduction. It does not mean that products should be sold at lowest prices. It means that they should be sold at prices that are average within a branch. In that way above-average profit and bigger market participation at low costs will be achieved. Under the conditions of mass production, fixed costs per unit of product are reduced.

Companies that stand for cost leaders are, among other things, characterized by the following: focusing on production control, rigorous use of budget, low product differentiation, limited market segmentation, emphasis on the improvement of productivity, managing resources, distinctive features and key competences that are found in the field of production and the like (Coulter, M. 2010, 213).

1.2. Differentiation Strategy

A company can achieve competitive advantage by using differentiation strategy. In this case, the company focuses on the creation of a unique product or service that differs from the ones created by the competition and that buyers regard as different and more valuable than the others and which they are willing to buy at higher prices. Differentiation strategy is characterized by the company's focus on getting the buyers' affection and loyalty towards its own products through efficient production and promotion of a product that is different from the one produced and promoted by the competition. The buyer is, therefore, the most significant driving force of differentiation strategy.

The efficiency of differentiation strategy is measured by cost-benefit analysis, that is, ratio of costs necessary for the purposes of producing a product that has unique features to the benefits obtained from higher product price. A company will achieve differential advantage if it succeeds in using its differentiation for the purposes of making the price difference that is higher than differentiation costs. Differentiation costs reflect activities on which uniqueness of a product is based. The basis of efficient differentiation can lie in (Novićević, B., Antić, Lj., Sekulić, V. 2006, 22):

- understanding of the needs and preferences of the customers,
- the company's loyalty to its customers,
- familiarity with the company's strategies and abilities and
- innovation.

The created uniqueness has to be sustainable and difficult for copying by the competition. In that way, the existence of a product with unique features will enable the company to set a higher product price and achieve above average profit. Uniqueness may lie in the products themselves or in the services that are offered to buyers. Moreover, product differentiation can be done on the basis of quality, image, distribution network and the like. It is desirable that every company provides several sources of differentiation rather than rely on one single source. Therefore, the aim is to increase the scope of selling of a differ-

entiated product in such a way as to disable the competition in the attempts to imitate the product, while at the same time making the product offer attractive to buyers.

Low costs were the only basis for the creation of competitive advantage for many years. Within changed and global business environment, differentiation has become a safer basis for maintaining competitiveness. This is because differentiation is less subject to the impact of changes within external environment and difficult for copying.

Differentiation strategy is suitable for companies that "use their unique resources and distinctive features for the purposes of marketing, research and development" (Coulter, M. 2010, 214).

Buyers' preferences can be stimulated by promotion activities. If buyers value products that represent, above all, status symbols, this strategy will have more possibilities for success.

1.3. Focus Strategy

Focus strategy is another source of companies' competitive advantages. Companies that choose this strategy tend towards realization of either cost advantage or differentiation advantage. In this situation, companies do not serve the entire market, but one or several of its segments and satisfy their needs. The market is not homogeneous. It consists of recognizable parts that can be interesting for serving. Therefore, specialized companies have advantage over the companies that serve several segments because they are able to satisfy the needs of a specific segment in a more efficient way. It should be ensured that chosen market segment is big enough to enable economical supply without making it too attractive for the competition.

Conditions under which a company decides to focus on generic focus strategy are the following (Novićević, B., Antić, Lj., Sekulić, V. 2006, 24):

- if a company has resources and abilities to serve one or a few segments,
- if a company does not have broad production program,
- if a company is not among the biggest companies within a branch and does not want to be one,
- if a company is very specialized and competent for research and development in relation to cadre and technology and the like, and
- if a company is small and entrepreneurially-oriented.

Focus strategy is adequate for companies that are oriented towards serving the domestic market. The reason for this situation lies in good familiarity with the market, good local connections, possibility of obtaining low-cost input and good knowledge of needs and requirements of the buyers.

2. TARGET COSTING AS INFORMATION SUPPORT FOR THE GENERIC STRATEGIES' REALIZATION

Target costing is a market-oriented approach focused on achievement of low costs that are regarded as the basis for gaining competitive advantage. This concept is based on the idea that the costs of a future product should be managed in the earliest phases of the product's life cycle because these phases offer the biggest possibilities for significant cost reduction. Namely, since changed business environment is characterized by the application of new production and information technologies, diversified demand on the part of

the customers and shortened product's life cycle, the costs that occur prior to the production phase tend to increase. Under these conditions, the product design phase determines 80% of total costs, so that the highest potential for successful cost reduction lies in the ascending phases of the product's life cycle. The chances of cost reduction are limited with progressing from product design phase. It means that they become limited when the production phase starts. Due to its chances in the process of cost reduction, target costing becomes a strategic tool that the company's management uses in the process of gaining competitive advantage. Moreover, target costing is not only regarded as the strategic tool for cost reduction, but it is also significant for profit planning.

In the process of target costing, it is important to focus on the creation of real possibilities. This means that each product that is included in the company's production range should contribute to the process of achievement of desirable profit.

Target costing represents an interactive process within which a great number of activities are performed simultaneously. Three basic levels or phases are identified within this process (Cooper, R. 2002, 21):

- market level
- product level and
- component level

Basic levels, that is, target costing phases can be illustrated in the way that was shown in Figure 2.

Market level	Product level	Component level
Long-term plan of a company Target price Target profit Target cost	Product design in accordance with target cost Defining of components	Component design in accordance with target cost Managing suppliers

Fig. 2. Basic phases of the process of target costing (Source: Cooper, R., Slagmulder, R., (1997) Target Costing and Value Engineering, Productivity Press, Portland OR. Available at: http:/www.tx.ncsu.edu/jtatm/volume2issue4/articles/hergeth/39 02 full.pdf

Being a part of the strategic process of cost management and profit management, target costing is stirred by market mechanism and strength of the competition. Acceptable cost amount, that is, target cost per certain product is obtained when the target profit is subtracted from the target selling price. Target selling price is the future selling price of a product or components and it is obtained as a result of the impact of market and competition forces. In the process of determining the target selling price, it is very important to understand numerous requirements on the part of the customers and range these requirements in accordance with their importance, which is not a simple process. Target profit is a value determined by the top management on the basis of global strategic abilities of a company. Target profit is based on long-term strategy of achievement of financial results and on short-term strategy of achievement of market share.

The second phase (product-level) is the phase of product design that should be performed within the limits of determined target cost. The third phase focuses on individual product components that are designed within the limits of determined target cost.

Cooper's target cost triangle shows three phases of this concept, which is shown in Figure 3.

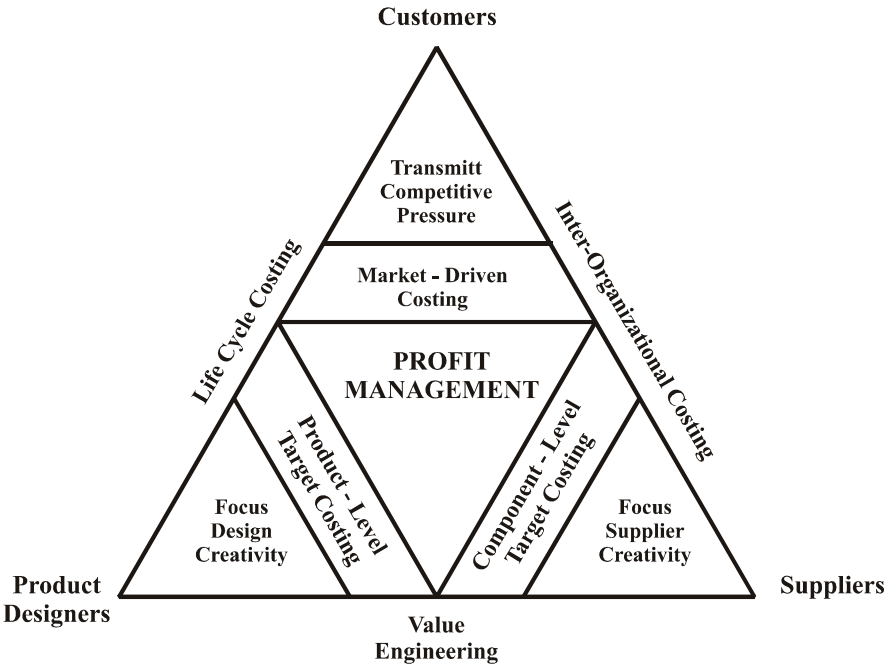

Fig. 3. Target cost triangle
(Source: Cooper, R., Target costing for new-product development, Journal of Cost Management, May/June 2002, p. 6.)

According to Cooper, target costing is a process that entails active participation of a great number of participants from the company itself as well as from external environment. The first phase of this process is primarily externally oriented and is dictated by the market on which the company places its products. The second and the third phase are internally oriented and they depend on the performances of the company itself and abilities of managers to create products that will generate profit in accordance with long-term expectations of the company.

2.1. Product-level target costing

In the process of realization of its strategy, a company tends towards aggressive performance on the market and focuses on making its costs lower than those of the competition but still attainable by the company itself. The establishment of these target costs imposes pressure on the managers of companies and product designers and forces them to find a way to reduce production costs. Target cost represents the allowed amount of cost. Allowed cost is a cost at which a product has to be produced so that the company could

reach the limit of target cost. It stands for the maximum allowable production cost. It often happens that allowed cost does not represent the real value. Namely, current abilities and the potential of the company and its suppliers to reduce costs are not the ones that are taken into consideration for the purposes of obtaining its definition. In many companies the amount of the allowable target cost is lower value than what the company can only achieve. For that reason, the amount of allowed target cost for a specific company is replaced with the term attainable target cost. The difference between allowed and higher attainable cost stands for a long-term strategic goal of the company and this difference should be eliminated on a short-term basis. Practically speaking, it is very difficult to find a way in which the allowed cost could be established while at the same time making the customers satisfied with the quality and functionality of the product. The difference between these costs represents temporary inefficiency of the company and its inability to fulfill long-term goals. Therefore, product-level target costing aims at increasing allowed product costs to the realistically attainable level on the basis of abilities of the company and its suppliers.

Product-level target costing passes through three phases (Cooper, R. 2002, 6). The first phase focuses on determination of the amount of product-level target cost. After estimating the ability of the company and its suppliers to reach the allowed cost, managers get the amount of attainable costs. The second phase of product-level target costing refers to identification of the ways in which a product can be designed so that it could be produced at target costs. This phase applies value engineering and other similar techniques. The last phase applies target cost disciplining with the purpose of determining whether product-level target costing has been achieved. Target cost disciplining shows if the cost reduction, determined through the application of value engineering, has been achieved. Product-level target costing is shown in Figure 4.

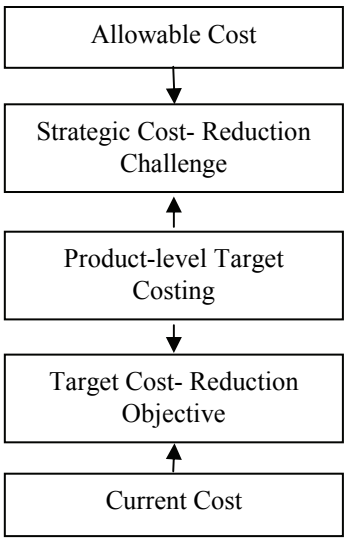

Fig. 4. Product-level target costing
(Source: Cooper, R., Target costing for new-product development: product level target costing, Journal of Cost Management, July/August 2002, p. 6.)

If it wants to achieve the desired level of profitability, the company has to offer its customers products of certain quality and functionality. The reduction of selling prices also results in desired profitability and market competitiveness. Tendency towards cost reduction lies in the basis of these company's goals. Product-level target costing is obtained in the following way (Cooper, R. 2002, 7):

Product-level target costing = current cost – target cost reduction

Current product cost is a cost at which a new product with available components, processes and abilities is produced. The process of obtaining current cost does not take any cost reduction into consideration. Allowed cost amount is determined by external factors, which means that there is a risk that allowed cost might not be achieved. For the purposes of determining the amount of cost reduction, companies use target cost reduction that represents a challenge for managers and direct executives within the company. The amount of target cost reduction is obtained by subtracting allowed cost from current product costs. Under these circumstances, the company has to identify attainable and unattainable part of target cost reduction in order to obtain target cost (Cooper, R. 2002, 7).

The achievement of attainable part of target cost reduction depends on the abilities of designers and suppliers to find ways in which unnecessary costs could be eliminated. The establishment of relations with the suppliers aims at early estimate of the products' selling prices, and, if possible, at changing the design of product while at the same time keeping the quality and functionality at reduced costs.

Unattainable part of target cost reduction is also called strategic challenge of cost reduction. Strategic challenge of cost reduction shows incapacity and inefficiency of companies to achieve competitive advantage and gain the leading position. This category should be managed carefully. The amount of strategic challenge of cost reduction is obtained in the following way (Cooper, R. 2002, 7):

Strategic challenge of cost reduction = product-level target cost – allowed cost

In companies with a well-organized system of target costing, there is usually no strategic challenge of cost reduction or it is low. Such companies have an advantage and they will not experience profit reduction in situations when designers are not capable of achieving allowed cost.

In the process of determining the amount of strategic challenge of cost reduction, it is necessary to pay attention to the fact that that value is not at a level that is too low or too high. If this value is at low level, there is a risk that the company might lose its competitiveness because a new product will have high target costs. If the amount of strategic challenge of cost reduction is too high, it might happen that designers abandon the idea of achieving it and that the category of target cost gets lost.

The role of the determined difference between product-level target cost and allowed cost is twofold (Cooper, R. 2002, 8). First, in this way strategic challenge of cost reduction is identified, which imposes strong pressure on the designers who need to be much more aggressive in the process of cost reduction. The second role lies in the fact that the tendency towards allowed costs prevents weakening of attempts at achieving competitive advantage.

The second phase of the process of product-level target costing focuses on the process of performing it. It is much more difficult to reach target cost reduction than to identify it. Numerous techniques, such as value engineering, functional analysis, quality function

deployment and the like, are involved here. The most significant technique is value engineering, which is why this technique is going to be described in detail hereinafter.

Value engineering (Value Engineering – VE) was used for the first time by the company General Electric where it served as a tool for the reduction of purchase price of the parts and not for profit planning and linking with target costs. Today this technique stands for an unavoidable tool for improvement and simulation of target costs. Having that in mind, we can state that value engineering stands for the systematic and multidisciplinary approach to the examination of factors that exert an influence on product costs in order to find ways in which they can be: reduced while maintaining the same level of quality and functionality; maintained at the same level with improved quality and functionality of a product (Sekerez, V. 2005, 169). Value engineering is primarily focused on production functions and after that on product costs. The task of this technique is to make sure that the product reaches primary functionality that will satisfy the customers at acceptable costs.

Value engineering regards value as the ratio of functionality to costs. Through this equation, the value of functions in the process of product designing is measured with the purpose of identifying functions with low value index. The value of this index has to be 1 so that the value of a product function could reach a satisfactory level. The subject of value engineering will be the product functions whose value is below 1.

The techniques of value engineering can be divided into three categories: direct application of value engineering principle on the product, comparative application of value engineering with the purpose of finding the ways in which costs could be reduced and other techniques of value engineering (Cooper, R. 2002, 9).

Value engineering can be applied directly in various phases of the process of product designing (Hilton 2009, 659). In that sense, there are zero, first and second look. Zero look is applied in the phase of conceiving the idea of a new product. Zero look aims at adding value to the product from the customer's and company's aspect through definition of new forms of functionality. First look focuses on the improvement of existent functions with the purpose of increasing the functionality of the product. It refers to the development of new products and main elements of their design. The last phases within the process of product planning and starting phases of the processes of development and production preparation stand for the basis of the application of second look. This look is characterized by the scope of improvement and creation of value and functionality that is much smaller than in the cases of the other two looks. This look aims at improvement of functionality and increase of the value of existing components and not at the creation of new ones.

Comparative application of value engineering for the purposes of cost reduction is another technique of value engineering. Some of the methods of this technique refer to the reduction of direct production costs, while others refer to the reduction of required investments in production with the purpose of increasing productivity.

It has already been pointed out that the technique of value engineering is applied in the phase of conceiving of a new product and it continues to be applied in the phase of product design. Value engineering can be applied until the product is ready for production. After that, cost reduction is continued through the application of value analysis (Value Analysis – VA). It is important to point out that value engineering and value analysis do not differ in relation to the principles and methods that they use for cost reduction. The basic difference between them is reflected in life cycle phases in the course of which they are applied. Value analysis is the technique of cost reduction without the

increase of the products' selling prices. Value analysis stands for a systematic, interdisciplinary examination of factors that influence product costs, done with the purpose of developing the most economical ways of reaching specific goals that are in accordance with quality and reliability standards within the process of production.

The final stage of the target cost -product level is the target cost mechanism for discipline. At this stage, the engineers and suppliers are required to constantly monitor the process of designing the product and to provide confirmation that the process of designing products at reduced costs is moving in the right direction.

At this point, the analysis can include costs that are lower than the current costs but that are higher than the target cost of a new product, the so-called as-if cost. These costs provide opportunities for the cost reduction that have been noticed in the process of design and production of previous generations of products.

As the design process goes on and product costs are reduced, estimated production costs decrease to the level of target costs. A great number of companies call this change of estimate "lowering" of costs. Therefore, the design process starts with as-if costs that are higher than the target costs, and, as it passes through the process of product design, becomes reduced until the level of expected or "lowered" cost is achieved.

2.2. Component-level target costing

Component-level target costing follows the phase of product-level target costing. Component-level target costing is a phase within which the amount that the company is willing to pay for the components that are necessary for the process of production is determined. Component-level target costing stresses creativity in the process of finding the ways in which product components could be designed at the lowest prices, which determines the selection of those components by the suppliers. With the purpose of efficient realization of this phase, it is necessary to establish strong and interactive connections with the suppliers. Some companies involve suppliers in the product design process itself and expect them to come up with concrete suggestions related to the alternative product design that will result in increased effectiveness and efficiency.

The procedure of calculation of the target cost allows the company to determine the sales price of the product and, based on this, put strong pressure on component suppliers to ship the components certain value. Therefore, it is easier to manage the companies that are horizontally integrated. These companies buy materials and parts that are needed for the process of production exclusively from external suppliers. For that reason, this kind of integration makes the company highly flexible and reliant on the suppliers.

Component-level target costing passes through four phases (Cooper, R., Slagmulder, R. 2002, 36): determination of target costs of the most significant functions, component-level target costing, selection of component suppliers and awarding suppliers for their creativity. Component-level target costing is shown in Figure 5.

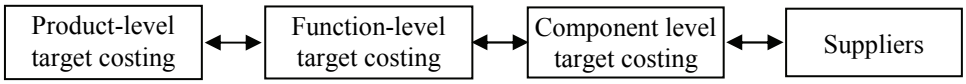

Fig. 5. Component-level target costing
(Source: Cooper, R., Slagmulder, R., Target costing for new-product development: component-level target costing, Journal of Cost Management, September/October 2002, p. 37.)

The design of a product and its most significant functions is performed by the existent teams of designers that involve representatives of various disciplines. Therefore, the purposes of determination of the most significant functions require the division of the design process into independent tasks. Matrix structure helps companies in this process. It is organized on the basis of the principle according to which each team is responsible to the product engineer in charge. The product engineer in charge becomes the project leader. Matrix structure aims at maintaining a balance between unique requirements for each product and maintenance of the common design philosophy. Although the engineer in charge is responsible for the coordination of the design process, teams of designers need to be autonomous to some extent in the process of development of a new product concept.

Achieving the purpose of the product and its functionality enable the most significant product functions. The engineer in charge is responsible for the most significant functions. He negotiates with teams of designers in order to reach the desired cost reduction of certain functions. Not all functions are equally suitable for cost reduction. Cost reduction of product functions that are based on modern technologies and design is much easier than the cost reduction of functions that stem from obsolete technologies. Target cost reduction of the most significant functions usually comes first. Two approaches within the process of cost reduction are known: historical cost reduction and reduction based on market analysis.

Historical cost reduction involves the use of data from previous years or data that have been obtained in the course of production of the last generation of products. The company uses sources inside the company itself for the historical cost reduction. Thus, in case the last generation of products showed that the costs of the most significant functions decreased at a 10% rate, the obtained amount would stand for the one from which a new cost reduction should be started.

Reduction based on market analysis is a more suitable approach for the introduction of new forms of functionality. This approach is determined by external factors, such as technical factors, product safety and the like. It should be taken into consideration here that target cost reduction does not endanger product safety as well as functionality. For example, if it happens that the suggested component target cost can endanger product safety, it will be reexamined and set to a higher level.

The engineer in charge determines which reduction approach will be accepted. The most frequent situation that happens is the one in which the engineer in charge collects data on historical cost reduction and on reduction on the basis of market analysis. On the basis of these data, he modifies component target cost for three reasons (Cooper, R., Slagmulder, R. 2002, 39).

If it happens that historical cost reduction does not result in the desired target cost reduction, the engineer in charge has to negotiate with the teams of designers in order to increase the rate of cost reduction. These negotiations will be carried out until the target costs of the most significant functions and product target costs are equalized.

The engineer in charge will modify component target cost in case a change of relative importance of the most significant functions happens over time. At this point, attempts should be directed towards finding the possibilities for cost reduction within design departments that are responsible for certain functions. Therefore, in case the importance of some function decreases, the engineer in charge will reduce cost reduction of that function and increase cost reduction of the function that became more important by the amount by which the former has been reduced.

Another situation in which the engineer in charge will modify component target cost happens in case the technologies, which the most significant product functions are based on, change. In that kind of situation, historical cost reduction makes no sense because there are no historical data on the cost reduction of new technology.

When the engineer in charge determines the target cost of the most significant functions, target cost is decomposed into groups of components and parts, all with the purpose of determining the purchase price for each component or part. Decomposing of the target cost of the most significant functions into components is performed by teams of designers, whereas the engineer in charge checks if the defined goals have been achieved.

Component-level target costing is similar to the process of determining the target costs of the most significant functions. Nevertheless, in case of component-level target costing, analysis includes the estimate of suppliers' performances. It is believed that one of the most significant decisions that is reached by the company's management is the decision on the selection of component suppliers. The company should tend towards the creation of stable and long-term relations between buyers and sellers if it wants to offer satisfactory products to the buyers. During negotiations with the suppliers, managers of companies have the possibility to get significant discounts and benefits in order to achieve the desired level of target cost.

It is important to ensure that the demand for low-cost supplier does not endanger the quality of the product. Component-level target costing does not necessarily require the selection of suppliers. It stands for a complex process. It is sometimes possible to accept higher supplier's price in case the supplier stands for the one with high level of innovativeness and in case the supplier is willing to establish long-term cooperation with the company. That kind of a supplier can be included in the team of designers. This is so because the highest level of innovations creates the highest value. Therefore, in the course of selection of suppliers, the company should take into consideration the following criteria: competitiveness of the offer, reputation and the level of innovations that are introduced into components (Cooper, R., Slagmulder, R. 2002, 41).

After the database of suppliers has been formed, it should be constantly renewed. The search for new suppliers creates new opportunities for saving. Saving will be achieved if both sides, the buyer and the seller, have the benefit. Long-term contracts are concluded with the suppliers who fulfill the aforementioned criteria. On the basis of these contracts, they get appropriate award for efficient and quality work.

CONCLUSION

A modern company operates under the conditions of rapidly changeable business environment characterized by fierce competition, shortened life cycle of a product, necessity of focusing on buyers' requirements, constant pressure for cost reduction, offer differentiation, focusing and increasing quality, functionality and fast product delivery. Under these conditions, the company tends to achieve and maintain competitive advantage and develop certain strategies. Selection of appropriate strategy contributes to the creation of products that have higher value than the ones produced by the competition. Therefore, the company tends towards finding the best way to meet the demanding customers' growing requirements and achieve long-lasting competitive advantage.

The companies can achieve long-lasting competitive advantage by the application of generic strategies: cost leadership strategy, differentiation strategy and focus strategy. Regardless of the choice of strategy that the company will use to achieve competitive advantage, the concept of target cost stands for a solid information basis for realization of any strategy.

The process of target costing starts from the prices determined by the market. This phase of the process of target costing is externally oriented. Product-level target costing passes through three phases: determination of the amount of product-level target cost, identification of the ways in which product-level target cost could be achieved and application of disciplining mechanism. Subtraction of target cost reduction from the current cost gives the amount of product-level target cost. Focus of a company is set on the unattainable part of target cost reduction, which stands for the strategic challenge of cost reduction. Various techniques are used for the purposes of achieving the strategic challenge of cost reduction, the most popular being the value engineering. After that, constant tracking of the process of product design is performed and confirmation that the attempts have been directed towards the defined goal is provided.

The last phase of the process of target costing is the component-level target costing. In the course of this phase, the analysis includes the estimate of suppliers' performances and determination of the amount that the company is ready to pay for the components necessary for the process of production itself. Establishment of long-term relations with the suppliers and the corresponding system of awards shows the creativity of the teams of designers in the process of finding the ways in which product components could be designed at lowest prices.

All phases and all levels of the concept of target costing provide opportunities for the reduction of product costs and simultaneous maintenance of product functionality. Moreover, the focus is also on creating a low-cost product with unique features that are important for the customers. In that way, solid foundation for the realization of generic strategies is created.

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OBRAČUN CILJNOG TROŠKA U FUNKCIJI REALIZACIJE GENERIČKIH STRATEGIJA

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Visokokonkurentno tržište nameće potrebu stalnog traganja za načinima da preduzeće proizvede i kupcima ponudi proizvod jedinstvenih karakteristika po nižoj ceni od konkurencije. Konkurentska prednost i bolja tržišna pozicija zavise od izbora odgovarajuće strategije, pri čemu preduzeća mogu izabrati neku od generičkih strategija. Koncept obračuna ciljnog troška jeste deo strategijskog procesa upravljanja troškovima i preduzećem. U njegovoj osnovi je nastojanje da se upravljajući troškovima u fazama koje prethode proizvodnji proizvoda, proizvede proizvod po niskim troškovima, a da se pri tome ne ugrozi njegova funkcionalnost i korisnost za kupce. Na taj način, ovaj koncept pruža dobru informacionu osnovu za realizaciju generičkih strategija preduzeća.

Ključne reči: *strategija, diferenciranje, fokus, ciljni trošak na nivou proizvoda, ciljni trošak na nivou komponenti.*